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MARKETING & MEDIA Decisions

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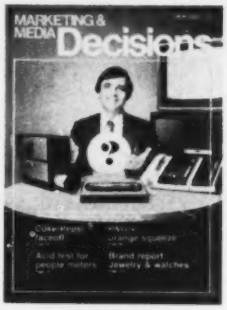

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FUTURES

Communications industries boom

This discovery, by the New York investment banker Veronis, Suhler & Associates, comes as a surprise to those who thought that broadcasting, publishing, advertising, film and other communications industries precede the economy into recession and lag in recovery.

According to the recently released VS&A study, communications grew faster from 1978 to 1982, than all but a handful of industry groups, averaging better than the average performance of the Standard & Poor's 400.

Based on accelerated growth figures, VS&A predicts that communications will continue to boom. John Suhler, president of the firm, explains that the study was initiated because of requests for comparative industry growth trends and profit margin performance.

"Executives can also compare their segment's performance with each of the other eight segments and with the overall communications industry's record as well."

The nine segments contained within communications are: newspapers, consumer magazines, business magazines, business information services, radio and tv broadcasting, cable/pay tv, book publishing, advertising agencies, and entertainment programing/distribution.

"It's clear from reviewing the data," Suhler notes, "that specialized rather than diversified, or multimedia, companies are more likely to be found among the industry's growth and profit margin leaders. The data also show that communications is an exceptionally recession resistant industry. Given its resilient performance and increasing income growth over the last five years, communications has been and will remain an attractive field for corporate growth and investment."

Leading Companies

Company	Rank	Segment	% Growth
Five-Year Revenue Growth			
Telepictures	1	Entertainment	364
Movie Systems	2	Cable/pay TV	177
Cannon Group	3	Entertainment	85
Viacom	4	Radio/TV	78
American Family	5	Radio/TV	70
Storer	5	Cable/pay TV	70
Five-Year Pretax Income Growth			
Cannon Group	1	Entertainment	119
Jones Intercable	2	Cable/pay TV	110
Reeves	3	Entertainment	85
Four Star Int'l	4	Entertainment	78
Reuters	5	Business Info. Serv.	71
1982 Operating Margins			
Jones Intercable	1	Cable/pay TV	53
Telerate	2	Business Info. Serv.	52
Gross Telecasting	3	Radio/TV	51
Four Star Int'l	4	Entertainment	48
LIN Communications	5	Radio/TV	42
United Television	5	Radio/TV	42

Adapted from VS&A COMMUNICATIONS INDUSTRY REPORT

A cheery outlook for the communications industry, dominated by film production houses.

Delving further into consumer shopping habits

A couple of surveys recently came our way, describing the consumer's buying habits for fresh fruit and vegetables (from Vance Research Services, of Prairie View, Ill.), and shopping patterns for hardgoods and apparel (from Leo J. Shapiro and Associates in Chicago).

The latter, conducted for *Discount Store News* among 1,000 people by random telephone poll, found that shoppers favor discount stores for hardgoods, despite discounters' efforts to sell branded apparel and upgraded merchandise.

Off-price apparel retailers have made aggressive attempts to court shoppers from upscale department stores and shops, but to no avail, according to the study, and ended up faring even worse than traditional discounters.

Specialty discounters, on the other hand, found favor with shoppers of high-tech items — computers, software, vcr's, stereos and telephones.

Continued on page 56

THE NEW ELECTRONICS

USFL draws advertisers to *ESPN*

ESPN kicks off its second year of United States Football League (USFL) coverage with a healthy slate of advertisers. The service, which has a subscriber base of 29.3 million homes, is charging advertisers $12,000 for a series of three 30-second spots — one positioned within the live telecast and one within each of the two repeat airings each game receives.

The Ford Motor Co., will be the exclusive auto advertiser in a designated quarter in each of the 36 games the network will televise this year. Dodge, a division of Chrysler Corp., has also reached a similar sponsorship agreement for 18 games, while Mighty Distribution Systems of America, a distributor of auto parts, has signed a pact for exclusivity in one quarter of all 18 Monday night games.

And like last year, Mennen will sponsor a "Most Valuable Player of the Game" segment each Monday night.

Good news for indies

As penetration for New Electronic Media (NEM) continues to chip away at established media's share of viewers, what will be the impact on independent television stations?

That's the question Bill Harvey, publisher/editor of "Media Science Reports," tackled at a recent meeting of the Association of Independent Television Stations. And if Harvey's crystal ball is in focus, the news looks good for the indies.

Harvey told the gathering of independent station owners that despite the rising NEM tide — up from a 4 to a 12 share in prime time audience from 1980 through 1983 — independent tv stations, too, have increased their prime time shares — up from a 9 in 1980 to a 12 in 1983. "NEM, superstations and indies are not taking audience from each other so much as they are all taking it from the network affiliates," he concludes, pointing to the networks' loss of 7 share points during that 1980-1983 stretch.

High marks for WTBS

Another pat on the back for Ted Turner. This time it comes from the International Coalition Against Violent Entertainment. ICAVE—a coalition of eight groups from different countries—monitored 30 commercial and public television networks.

ICAVE found that on the average, U.S. programing was four times more violent than Canadian, British, Australian or German programing. But SuperStation WTBS "came through with high marks for its commitment to wholesome, family entertainment, as well as for the large amount of documentary and educational programs aired during prime time," WTBS said.

Among U.S. networks, only the Public Broadcasting System scored higher for lack of violence. ABC, CBS and NBC all averaged more violent acts per hour, while pay networks like HBO, Showtime and The Movie Channel "Eclipsed WTBS in the mayhem department by more than 1000%."

CNN to debut "This Week in Japan"

Cable News Network debuts a weekly half-hour program, "This Week In Japan," sponsored by the Japan Center for Information and Cultural Affairs. The program will be produced by CNN's Tokyo bureau and will focus on news events with special reports on Japanese lifestyle. "This Week in Japan" will air Saturdays, 9:30 p.m. (ET) starting April 7.

Cable hits 39% penetration

Cable continues its upward trend as Arbitron Ratings reports that cable penetration has hit the 39% mark, or 32,546,800 households. The October estimate was 37.5% or 31,461,000 households.

As usual, small cities in California and Texas dominate the list of markets with the highest cable penetration, while larger markets in the Central and Eastern U.S. are among those estimated to have the lowest penetration. Of the 15 largest ADI's, Pittsburgh has the highest cable penetration at 50%.

Arbitron updates the cable universe quarterly using its own diary data. The next estimate will be available in May.

Cable estimates for top 15 markets (ADI)

New York	30%	Boston	31%	Cleveland	39%
Los Angeles	25%	Detroit	22%	Pittsburgh	56%
Chicago	18%	Washington	18%	Miami	38%
Philadelphia	40%	Dallas-Ft. Worth	29%	Minneapolis-St. Paul	13%
San Francisco	45%	Houston	38%	Seattle-Tacoma	44%

Source: Arbitron Ratings

UPDATE

Fewer coupons beyond redemption

The economy may have turned around but you'd never know it from the way consumers redeemed cents-off coupons in 1983. The A.C. Nielsen Clearing House reports that redemptions climbed 24% last year over 1982, as 5.56 billion coupons were turned in at the supermarket cash registers across the nation. (See: *Coupon Rip-off*, May 1970, pg. 62)

In the last four years redemptions have increased 62%, with total redemptions rising from 3.44 billion in 1979. The coupon redemptions converted into $1.69 billion in terms of total consumer cents-off savings.

The total number of coupons distributed last year was 142.9 billion, producing a redemption rate of close to 4%. Daily newspaper R.O.P. solo offers accounted for 20% of the coupons distributed. Co-op offers in daily newspapers accounted for another 12%, and free-standing inserts delivered 36%, and magazines carried another 10%. Direct mail delivered 4.3% of the coupons, and in/on pack coupons added another 5.6%.

The delivery breakdown for the past three years is illustrated above.

Percent of coupons distributed by media

		1981	1982	1983
Daily Newspaper	R.O.P. Solo	27.3%	23.1%	20.0%
	Co-op (All)	17.7	15.2	12.2
	Fr.-St. Insert	—	—	6.4
Sunday Paper	Magazine	7.3	6.3	4.9
	Fr.-St. Insert	26.2	33.3	36.6
Magazine		11.8	11.4	10.0
Direct Mail		3.3	3.8	4.3
In/On Pack		6.4	6.9	5.6
	TOTAL	100.0	100.0	100.0

A.C. Nielsen

No chill on frozen foods

Although frozen foods are gaining in overall popularity with consumers, there is still concern in consumers' minds about the quality and nutritional value, according to a study from the Berni Corporation, Greenwich, Conn., conducted for the Package Designers Council. (See: *Brand report 84: Frozen dinners*, February 1983, pg. 129.)

The Berni Report states, "Clearly the frozen foods category is hot right now — consumers have been warming up to frozen foods like never before. But if frozen foods are to successfully transform their previous 'tv dinner' image, marketers must walk a tightrope between packaging presentations which seduce and overpromise versus those which communicate honest appetite appeal. One wrong step could heat up consumer disappointment and jeopardize repeat sales for the entire category."

Findings from the study disclose that while consumers for the most part love the convenience of frozen food and are increasingly pleased with their taste — particularly the new, upscale entrees and super-premium ice creams — they are still ambivalent about the category, questioning frozens' quality, nutritional value and expense.

The report ads, "Our findings suggest that there exists a significant opportunity to reassure consumers about the quality of frozen foods via appetizing yet accurate packaging presentation."

AT&T makes videotex framing easier

Frame creation, the production of graphics for videotex, will be less of a stumbling block for users of the medium, according to the American Telephone and Telegraph Company's consumer products division. A new software package has been released by AT&T, which has 40 new features and can increase operator productivity by as much as 30%. (See: *The ABC's of videotex*, November 1983, pg. 64)

The new software package, labeled the 3.0 release, is designed to speed the work of the graphic designer by reducing the operation of editing frames to only one step, which saves time and allows more frames to be produced in a day. Frames will also require fewer bytes per frame. Consequently, sophisticated frames can be stored in less space on a mainframe computer and be transmitted in less time to customer terminals. The 3.0 release also supports a peripheral port on the system, which allows a printer or camera output device to be connected to the system.

AT&T consumer products will upgrade present customers' software immediately at no charge.

(See item on jump page 52 for new compatible software developed for the transmission of different videotex protocols.)

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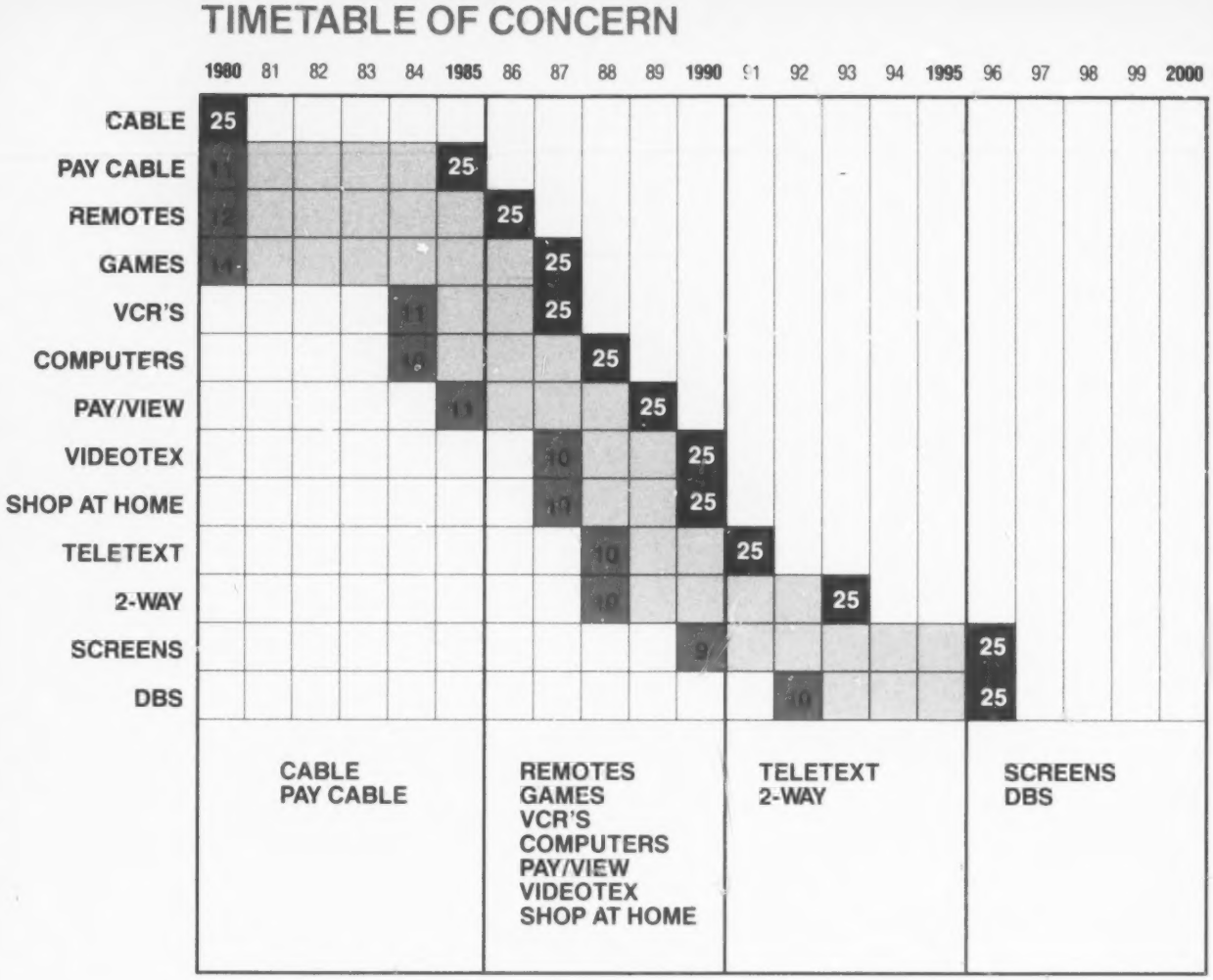
Get ready for the video generation

Which of the new electronic media are likely to grow and attract the most users? Steven J. Fajen, senior vp, director of media, Compton Advertising, handicaps the future of various distribution systems, screen attachments, video forms. The good news is that more time will be spent in front of the tv set. The bad news is that network shares will continue to fall. And the catch is that advertisers must begin to pay more attention to today's teenagers.

The predicted growth rates for the new video forms cited in this work were generated from a variety of sources. Counsel was sought from vested video interest. Broadcast entities and their representative institutions were approached. Manufacturers and renderers of service in the video field were contacted. Newsletters and trade press were scrutinized. The opinions of respected futurists were sought.

The final figures presented here are no more final than tomorrow. All data are subject to change. This is a volatile marketplace. However, the figures represent a consensus from the above counsel, tempered by the whim of the author. They are no better or worse than the guesses of anyone else who wishes to spend the same time and effort. They are no more right than the



best effort to guess what might happen tomorrow, today. They are no more wrong than waiting idly unprepared for the events of tomorrow to wash over us. They are beginning to plan for the future, now.

New wave video

Imagine yourself standing on a beach. It is night time. While you can see by the light of the moon, the water plays tricks with your eyes. As waves build one upon the other in the distance, you try to guess how large each will be when it reaches the shore. But the water is turbulent, the undertow strong and the current shifting. Distant high curlers often arrive placidly. Yet other waves swell slowly, grow angry, foam up and crash upon the beach.

It is too dangerous to wander into the water for a better look. There is a nagging fear of the undertow and the unknown. So you stare transfixed by the never-ending onslaught of water in all its shapes and sizes.

Essentially that is about where we stand today, on the beachhead of a new electronic media era. Between our toes we can feel the comforting touch of traditional media forms, but they are unrelentingly slipping away. In recent years we have tried unsuccessfully to figure the shape of today's shoreline. As recently as six years ago, we splashed predictions about cable television around that were wrong. We said "critical mass" of 33% penetration would be reached by 1985. Cable passed that point over a year ago. "Critical mass" was supposed to be the point at which a new medium would begin to change contemporary media habits. Network shares started to erode in 1978, seven years early. All this happened due to a relatively familiar medium: cable tv.

Considering the possibilities for failure in a future that promises to introduce a much greater variety of unfamiliar media forms, we could easily shrink from prediction. On the other hand, with a lot of hard work and imagination, we can metaphorically throw a surfboard into the water to better gauge the size of each wave close up.

Distribution Systems

Cable: Using special antennas, cable system operators pick up a signal and send it through their own cables to a subscriber's home. Subscribers pay a basic monthly charge for that service. For an additional monthly fee, they can purchase pay tv networks with special program fare like movies.

Since 1980, total cable penetration

of all U.S. tv households has risen from 26%-41%. 35%-40% of homes that are able to accept cable decline the opportunity. Therefore, it is estimated that by the end of the century when just about everyone could have cable tv, about 60% of all homes will. An exponential growth of cable will be further hampered by the introduction of new technologies yet to be introduced, that could serve the public in a more favorable way.

Within the universe of cable homes, pay cable will be at 26% by 1985. The popularity of these networks is likely to grow through 1995 when it should peak at around 43%, then decline in favor of other technologies, just as the growth of basic cable will be inhibited.

Special pay services: Pay per view is a system by which an individual will at some point in the future choose to watch a special event but have to pay to see it by unscrambling a signal for a fee. These systems will grow in popularity in the early 1990's, as they begin to buy the rights to special programing that is desirable enough to pay for. From 1990 to 2000 they will grow from 28%-58% penetration.

Subscription tv essentially exists as a substitute for cable in areas that are not yet wired. By subscribing to the service on a monthly basis, a home can unscramble a signal through the use of a decoder. This distribution system will not have much of a future beyond its current popularity as other technologies advance.

Other delivery systems: The Direct Broadcast Satellite System could obviate the need for cable systems. A signal is transmitted by satellite directly to a subscriber and is picked up by a home receiver dish. The cost of these dishes is likely to be reduced to a few hundred dollars by the 1990's, making DBS an affordable alternative. Furthermore, DBS is a multi-channel system that can broadcast ad messages as well as many different kinds of premium programing, thus making it a desirable medium. While the growth of this form will be slow to develop, by the mid-90's, it should take off from 21%-50% penetration, replacing many of its forerunners.

Multi-point Distribution System (MDS) provides a pay channel through a local line of sign transmission. It provides a multi-channel program capability with about a 20-mile radius and is funded by subscription. It is most frequently used in hotel and apartment complexes. MDS is not likely to exceed 5%.

Low Power TV (LPTV) like MDS is a locally originated system, with only a single channel capability. This form is not expected to grow.

Screen attachments

VCR's & Cameras: From a relatively meager beginning of 2% ownership within U.S. households in 1980, VCR's will have permeated 15% by 1985, over a third of homes by the end of the decade. And as prices continue to plummet and units are built into tv sets, fully 80% of all homes will have a unit by the end of the century.

In order to operate a video camera, one must first own a VCR. Further inhibiting the rapid growth of cameras are their price and the enormous popularity of still cameras. Less than 10% of the population now owns a movie camera. It is expected that video cameras will gain a modest 5% growth by the end of the 1980's and 15% by the year 2000.

Games: With the onslaught of other technologies and hand-held games, the introduction of a less expensive and much more versatile computer and the presence of a fickle public, sales of video games have already begun to fall off. This once explosive area is now projected to reach into just over a quarter of all homes by 1990 and taper off.

Video disc players: Without a recording capability and as advanced a technology, VDP's have never really been a serious threat to VCR's. However, as their technology improves and they acquire a capability to record, as a feature built-in to new television sets, VDP's will begin to gain in popularity. By the 1990's, VDP's will gain acceptance within one of every six homes.

Accessories: The remote control unit will eventually enjoy universal popularity. Most new television sets will be sold with a remote unit and an average set turns over every seven to eight years. Remotes will vary in form from the small hand-held unit to the box that accompanies the acce[illegible]

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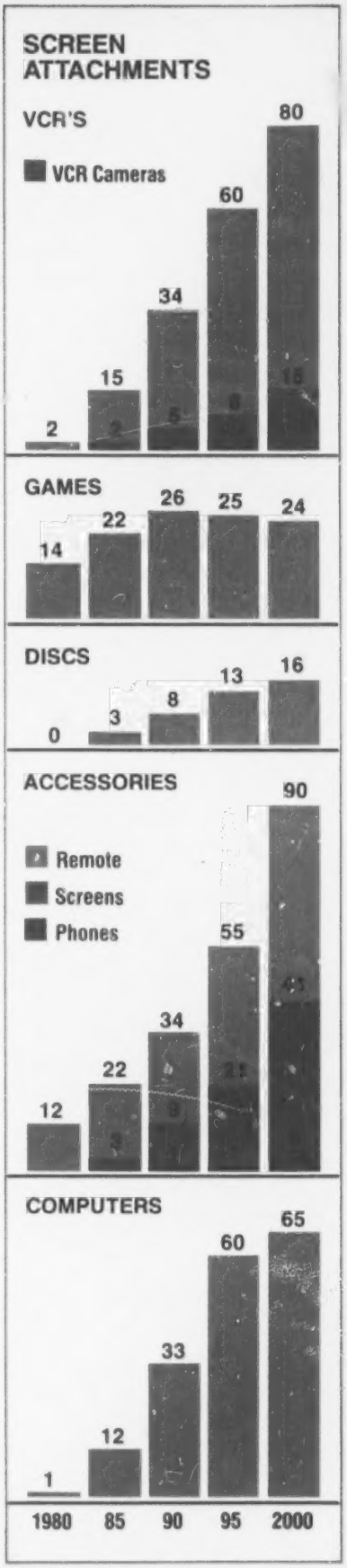


of cable into the home. That box allows people to quickly scan any number of stations at the mere push of a button. Remotes are now present in nearly 20% of all homes. By the end of the decade, one-third of all homes will have one and by the end of the century fully 90% will. This device will drastically alter the way advertisers will have to communicate with viewers.

Non-traditional sized screens will come in many sizes from giants to portable wrist-watch like models (already on the market). Roughly one in ten homes will own a new screen size by 1990 and four in 10 by 2000. Video phones, however, will not enjoy the same growth as most of the new technologies covered. This device is really the stuff of the 21st century.

Computers: Projections on the growth of computers are being updated nearly every day. With an accelerated technology and lower prices, it is expected that nearly a third of homes will either own or rent a computer by 1990 and roughly two-thirds will own or rent by the year 2000.

New video forms

Teletext: This is a non-cable subscriber service provided by local tv stations. Using a special console, viewers can switch from standard tv programing to pages of information on the tv screen. Subjects could cover news, stock quotations, sports, classified listings and so on. This system, initially offered through a converter, will eventually become available through personal computer software and be built directly into the tv set (where it will enjoy the bulk of its growth). While teletext barely covers 1% of the country at the moment, nearly 20% of homes will embrace this capability by 1990 and as many as 75% by the end of this century.

Videotex: Like teletext, videotex displays alphanumeric material on the screen. However, this is an interactive service that connects a home terminal to a computer databank. Currently the system is in the experimental stage, marketing a bank-at-home service. Videotex will be delivered by several methods, including personal computers, telephone lines, cable, DBS/MDS/STV/LPTV and picture phones. The real growth spurt for videotex will begin at the end of the 1980's when it will approach 25% penetration. By the end of the 1990's the medium should have attained 60% penetration.

Two-way tv: This is strictly a cable-related system, which is interactive in nature. Viewers can respond to local programs, surveys, interviews, and can vote and even influence public opinion. It is expected that by the end of the decade, 16% of homes will have two-way by the end of the 1990's, 48% will have this capability.

Shop at home: Though most shoppers will still want to price items in person and experience the serendipity of shopping, a fair number of Americans will be able to shop from their homes before this century comes to a close. While only 5% will be able to shop at home by next year, 25% should be able to by 1990 and 65% by the year 2000.

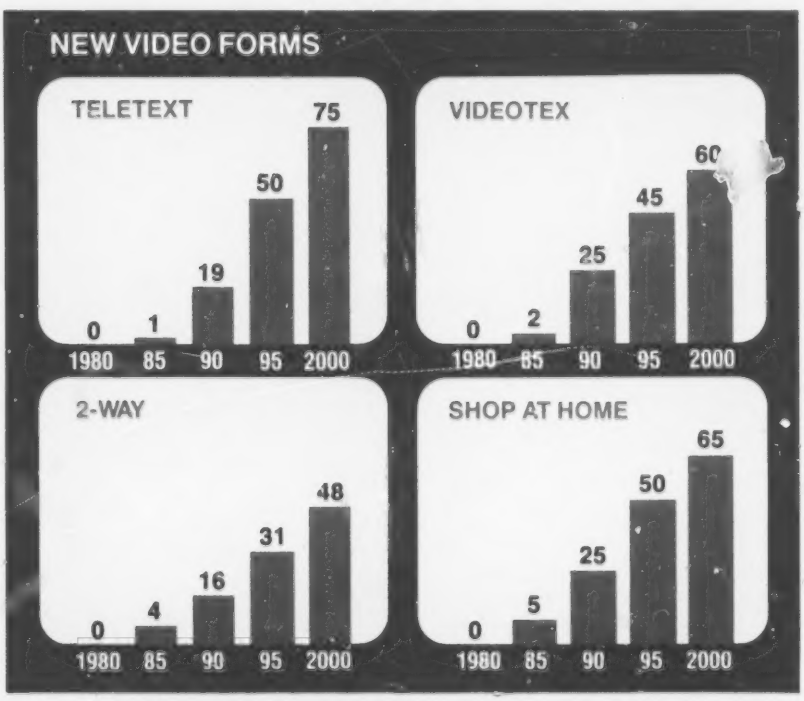
Undoubtedly, this will change the way marketers sell their products.

All together now: When all of these new wave video technologies are cumed together, interesting patterns emerge. In the base year 1980, only 35% of homes owned a piece of other than traditional video technology. The average home that did embrace the new forms took in between one and two. By next year, 60% will own an average of two. By 1990, 90% will have accepted three. By 1995, fully 98% will have between four and five new forms and thereafter people will merely load in one form.

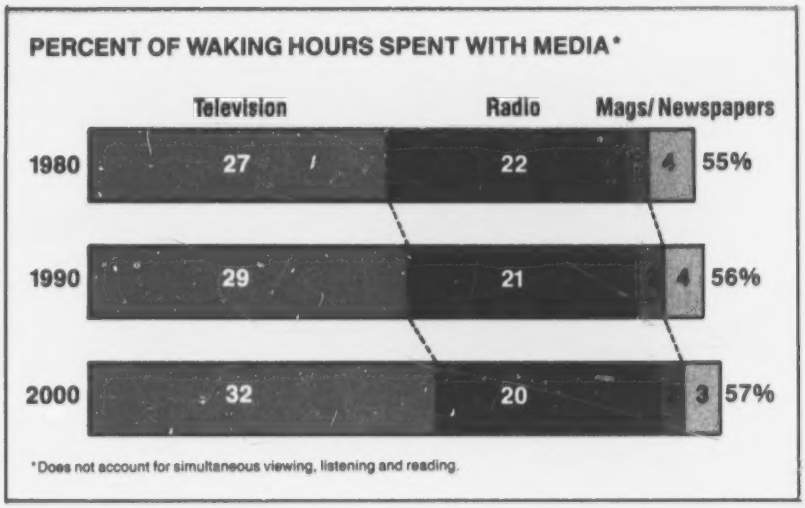
So new wave video forms will continue to entice the public with increasing velocity. Each new medium will affect the others. Only a few will come and go, most will stay. Collectively they will fragment the mass reach potential of any one given medium. And finally by around the mid-90's, all homes will have taken in most of these new video alternatives.

New viewing patterns

With the introduction of new wave technologies, the amount of time each individual spends in front of a tv screen should increase. As years pass, software displayed on the screen will change, depending heavily upon the technology being used. In base year 1980, 27% of waking hours was spent in front of the screen. By the end of the century, the average American will spend 32% of their waking hours in front of the screen (about an hour more each day). Some of this hour gain in screen time will come at the expense of other media. A videophile generation will have come of age by the mid-1990's and essentially direct the media



habits of our society. Radio listening will decline about 15 minutes a day from 22%-20% of waking hours. Reading time for newspapers and magazines will simultaneously decline by about 10 minutes each day, though their percentages are too low to be reflected in the table below.



Network Erosion: Turning specifically to traditional tv, network shares will continue to erode. Since 1978, the combined shares of the three networks during prime time have dropped a point a year. We recently experienced a deceptive leveling of that erosion which in no way represents a permanent abatement. Consider the plethora of new media awaiting acceptance over the coming years. It is perfectly reasonable to expect that the networks will continue to experience share erosion. Superimposed on the now familiar chart of cumulative growth of new technologies, is the expected share decline for the three networks combined. By next year they should gross to 73% in prime time, then 63% by 1990, 54% by 1995 and only 50% by year 2000. Put another way, today's nighttime network commercial reaches about 12% of adults. By the end of the '90's, it will only reach 7%.

Reaching, a new experience: Considering network inflation and expected audience dimunition, new reach curves will have to be structured. Based on current trends, curves indicate that increasingly larger numbers of dollars will buy decreasingly smaller network television audience shares. If money were spent only on the three networks in a mixture of prime and daytime, vastly different patterns of audience accumulation develop over the years. For example, if one were to spend $10 million in 1980 on network in a year, they would reach approximately 75% of adults in any given month. By 1990, with the same dollar expenditure, only 50% of adults. By 2000, a mere 20%.

The biggest gaps between the reach curves for 1980 and 1990 occur at budget levels of $5-15 million dollars, the advertising expenditure for most major goods and services. The biggest gap between 1990-2000 on the other hand will occur between $15-$30 million dollars, which considering inflation should again be the budgets for most major goods and services. Independent stations and superstations are part of this equation and they are projected to flourish. However, the main point is clear: marketers are going to have to find ways to make up the difference associated with inflation and audience diminution.

As more video alternatives are available, people will become harder to reach. The once captive audience of the 1960's now experiences relative freedom with the tube and in the near future will experience the complete freedom of a videophile.

Zapping: The combination of video choices and the remote control will allow viewers to switch from channel to channel or device to device with relative ease. Undoubtedly, commercials will become more vulnerable to zapping.

Current studies available on the subject of zapping commercials are by no means definitive, but they give us a pretty good indication as to what is going to happen.

- MRI in 1980 reported that nearly 60% of a program's audience paid full attention to the program material. By 1983 that number had slipped to 51%.
- The *Newsweek* Eyes On Study in 1978 revealed that only 67% of a program's viewers remained in the room at the commercial break. By 1980 this declined to 62%.
- A 1979 A.C. Nielsen VCR study revealed that 50% of people taping an on-air program did not eliminate commercials. By 1983 that figure had diminished to only 25%. Nielsen further disclosed that by 1983, fewer than one in ten viewers who viewed and taped a show actually witnessed the commercials a second time upon the program's replay.
- Two other studies from TV Audience Assessment and Ski Cable in 1982 and 1983 showed that 15% and 14% of viewers respectively switched channels during commercial breaks.
- A recent study from Information Resources, Inc., showed that people zapped commercials 6% of the time. None of these latter three studies dealt with the number of people who left the room during a commercial break or paid any degree of attention.

One thing is quite clear. It is going to be difficult enough to just find ways to have a chance to expose videophiles to commercials. It may be even more difficult to hold their attention.

Introducing the new public: As these new technologies mature, a new public (the videophile) or core buyer group for most products and services will also mature. The core buyer for most goods today is about 35 years of age. Most marketers would prefer to persuade that prospect of the value of their goods before they reach core buyer age, so favorable buying habits are formed. A general communications target age is about 30 or younger. By the time most homes in this country are loaded with the new technologies in the late 1990's, that target prospect is still likely to be about 30 years of age. The

catch is simply that they are not today's 30 year old. They are today's teenager. Put another way, today's teenager will constitute the new public. They are already today's videophile.

In order to successfully market products and services using new wave video distribution channels, one should come to better understand this new public. First, they are the children of baby boomers. The Baby Boom generation, that has such a profound effect on our culture, will have passed through the core target group and their children, the new public will take their place. Baby Boomers, because of their sheer size and influence on their children, will still be important to marketers. To understand the New Public, it is wise to review their roots, their parents, the Baby Boomers.

and more traditional technologies. Finally, it is important to decide when to begin to really become immersed in the subject to decide whether or not a particular technology should have any place in future communications for products and services.

Cable really began to affect network share levels once it was wired to 27%-28% of homes. Using that as a model and considering that as more and more technologies get introduced, the level of penetration necessary in order to disturb more traditional viewing patterns will get lower and lower. About 25% penetration is the point at which future technologies should become interruptive to the existing video forms.

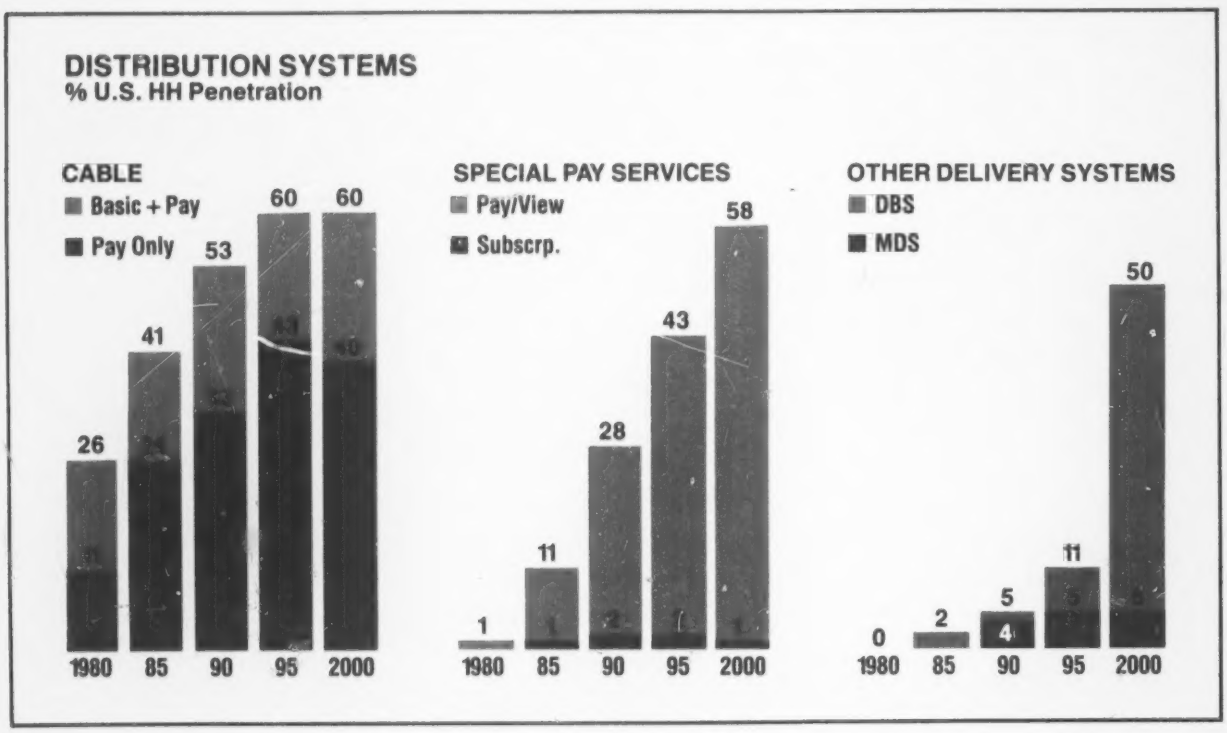
A smart marketer would really not wait for a medium to reach that level of consequence to become educated to not a particular medium is of any consequence to the business success of the brands and services the company is marketing.

Having done this, the marketer can then dispose of those newer forms that do not seem relevant and stake out an important position in those that do.

Caveats and clarity

In a matter of a few years, cable will be joined by other new video forms of consequence. Many will permit commercials. Ultimately though, the success of any new form will depend upon its content, its software, its program matter.

The practitioner should evaluate short- and long-term estimates for the growth of each new medium, its expected audience, the degree and style in which it can be used commercially,



Paths to solutions

Synthesizing the future: The first step in making some sense out of this anticipated crescendo of new technologies and the public that will mature with them, is to be able to get a grip on what is going to happen and when. Next, it is important to know when a new technology will reach a degree of maturity that it will interrupt existing its idiosyncracies. One should really begin to learn about a medium once it has attained about 10% penetration, since the number of years between a medium's rise from 10-25% is not all that long. By becoming concerned about an emerging video form at that early stage and learning and testing as much as possible, it is possible to determine at an early stage whether or projected finances, the prospects for the new entry to be purchased, and most importantly, the kind of software to be presented.

Every new media form is nothing more than a distribution system for programing material. If that material is not acceptable to a sizeable enough number of people, then the medium will simply fail.

Piaget ad

BRAND REPORT 96:

Jewelry and watches

With economic recovery boosting sales in two recession-resistant industries, 1983 was a good year for jewelers and watch manufacturers, overall. But, although the forecast for 1984 is bright, several problems loom, especially for the watch industry, as it battles a glut of low-end products from the Far East.

It was the best of times, it was the worst of times.

On the up side, early projections based on government figures show an overall modest 4% growth in sales of watches, diamonds and karat jewelry, to a $13.5 billion market. Jewelry store sales alone, estimated by the 1977 retail census to have a 52.7% share of the market, were up 8.4% for the first 11 months of 1983.

But negative pressures, more widespread, may have a greater effect on all three industries. The current relative stability of diamond prices may be a relief to jewelers, but the industry as a whole is on less firm ground. Sales are up on the low end, but most of the prestige houses are being forced to increase their inventories of high-quality stones.

As the price of gold continues to slip

FIRST THREE QUARTER MEDIA EXPENDITURES, 1983

(In millions)

Company	Total	Magazines	Supps	Net tv	Spot tv	Outdoor
Hattori	$ 6,485.7	$ 510.2	—	$ 866.5	$5,092.5	$ 8.5
Lorus	1,699.1	—	—	—	1,699.1	—
Pulsar	1,733.8	4.0	—	750.5	979.3	—
Seiko	3,075.9	505.9	—	116.0	2,414.1	39.9
Loews						
Bulova	1,807.3	—	—	1,795.1	12.2	—
N. Am. Watch	3,104.5	2,055.3	$235.0	—	814.2	—
Concord	1,379.4	636.7	94.0	—	648.7	—
Corum	542.5	469.7	70.5	—	2.3	—
Movado	85.4	85.4	—	—	—	—
Piaget	1,077.2	863.5	70.5	—	163.2	—
Timex	5,980.1	15.9	657.4	4,399.9	906.9	—
DeBeers	11,860.0	6,617.3	—	4,334.1	908.6	—
Int'l Gold	1,282.3	1,278.3	—	—	4.0	—

Source: LNA, BAR

First three quarter expenditures are at best a rough estimate of total expenditures for the watch and jewelry industry, since the seasonality that used to dominate the industry has largely been abandoned. For 1983, economic recovery and independent marketing strategies boosted total expenditures to as high as three times the first three quarter figures.

down, consumers are buying once again. Mike Roman, chairman of Jewelers of America, notes that daily gold prices helped maintain awareness of the precious metal even in the recession.

"Even when the price of gold was at its peak, sales weren't bad. A disproportionate amount of jewelry is bought as gifts, and daily quotes helped establish gold's worth as a lasting value." Even so, some jewelers fear that a continued downward trend in prices may forestall consumer spending, in anticipation of yet further price drops.

But the real bad news is reserved to the watch industry. Technology has turned a once-skilled industry into a battle of the bulk. As usual, the pressure has come from Japan and Hong Kong. Mechanical watches, which accounted for over 40% of the market in 1980, have dropped to an estimated 15% for 1984, while digital watches, most priced under $25, dominate with an almost 50% share.

Economies of scale in digital production have prompted the glut. Last year, Japanese and Hong Kong manufacturers put some 382 million units on the market, about 30% more than the demand for watches in the world. As a result, prices have fallen dramatically, to as low as $2, and some U.S. companies like Texas Instruments, once a major player in digital watches, have beaten a hasty retreat.

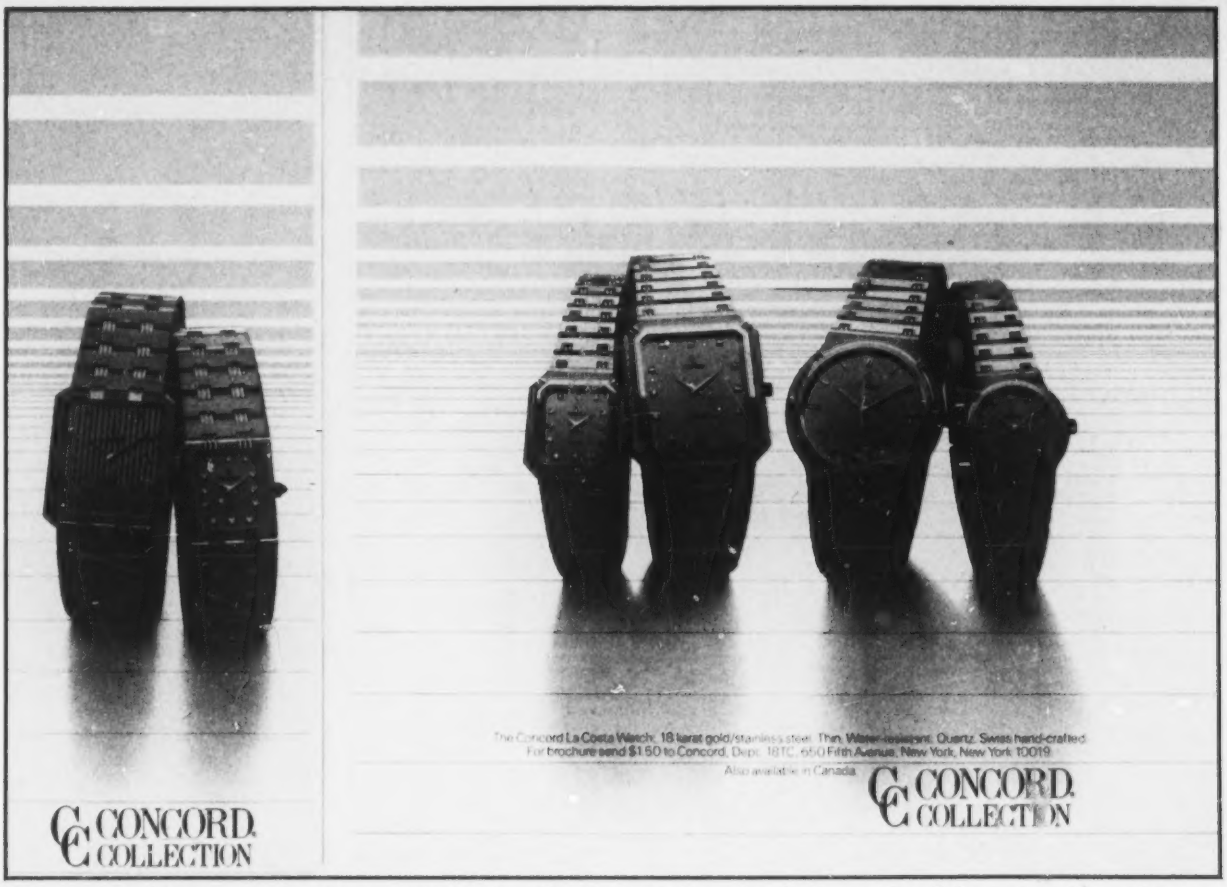
"Everything points to a continued glut," says Roman, who adds that the high volume of utility watches has sharply segmented the market. "There has been a great expansion in outlets for these watches. They're stamped out with a cookie cutter, with no care about where they will go."

Tony Collado, executive director of the American Watch Association, says that the majority of the 140 million units that entered the country last year — about twice the level of American demand — were grey market goods: "Watches sold in this country by unauthorized dealers, containing a trademark but produced overseas to be sold through channels other than the U.S. registered trademark owner."

It might be tempting to think, as Roman does, that a highly segmented marketplace would reduce competitiveness overall. Not so, says Collado. Even though the wide array of watches are sold through different types of outlets to different buyers, even if the average rate of ownership has increased to 3.5 watches per person — the highest ever — the American marketplace is approaching saturation. Some even think the point may be already passed.

Fear, or at the very least concern, has gripped the larger manufacturers. Low-end producers will continue to compete with price wars and competitive discounts, while high-end producers are falling back on the quality of their products.

"The companies that will fall by the wayside first," says Roman, "are likely to be in the middle range. The greatest strength is being seen among the more accepted brands, although it's


The Concord La Costa Watch. 18 karat gold/stainless steel. Thin. Water-resistant. Quartz. Swiss hand-crafted.
For brochure send $1.50 to Concord, Dept. 18TC, 550 Fifth Avenue, New York, New York 10019.
Also available in Canada.
CONCORD COLLECTION
CONCORD COLLECTION

Concord had been running in upscale books, like *Town & Country*, before advertising repositioned the watch to emphasize sporty styling.

difficult to pinpoint where weaknesses lie. But the casualties are sure to be the brands that have no identity with either of the two strong segments, price and quality, dominating the future."

Individual manufacturers have been devising distinct strategies to combat an anticipated high volume of imports. Some of the lesser spenders, like Hamilton, Elgin or Gruen, have been relying more on mail order, while the larger manufacturers are making an effort to build recognition and tighten links with traditional outlets — jewelry stores and jewelry departments of department stores.

Hattori

The Japanese firm of K. Hattori & Co. covers all price ranges with the Seiko, Pulsar and Lorus brands. By far the biggest part of the business is carried by Seiko, which is first in world unit volume.

Even though Hattori manufactures only quartz watches, the three divisions do not compete. Set apart by price, the watches are also marketed and sold distinctly by each division.

David Straus, vp, marketing at Seiko, says the watches, priced between $80 and $300, will not be "too affected by the glut." Seiko has been the leading brand for the past five years because it has concentrated distribution of its watches in jewelry stores and jewelry departments, and maintained a high advertising to sales ratio.

After a level year in 1982, Straus says sales turned around in 1983 and show every sign of continuing to get better in 1984. Since the average price of a watch in 1983 was $177, he is confident that Seiko has its "mass-class" franchise well secured.

Of the $10 million spent in consumer advertising in 1983, 80% went into spot tv, and the rest into print, mostly magazines. Straus describes the target as between 18 and 45, "slightly skewed to higher income levels." Digitals represent a decreasing percentage of the 490 models marketed under the Seiko trademark, while quartz analogs, up to nearly 30% of the total from 10% four years ago, make up 70% of the line. Advertising is so weighted.

Straus notes that the market for watches is becoming broader, both in terms of age range and occasion. "Even in the teenage market, they are buying better products than they used to. We're finding that the tendency toward quality and a love for technology show up pretty early on.

"There's also more multiple watch ownership than there used to be. People tend to buy watches for occasions now — sports, for example, and for dress." Straus notes that this trend has just about eliminated seasonality in the watch industry: where Christmas and graduation used to account for about 80% of Seiko's business, that proportion has dropped to little over 60%.

Pulsar Time was started at just about the time Seiko had fully stocked its authorized dealers. The brand, Pulsar, has just come out with a mechanism calculated to revolutionize the industry: a solor-powered quartz analog watch that can run for up to 48 hours

Retail panelists rate sales prospects

Product Line	Sales Prospects — '84 First-Half			
	Very good	Good	Somewhat good	Poor
Watch Batteries	45.5	40.0	12.7	1.8
Diamond Jewelry	37.7	41.0	21.3	0.0
Repair/Service	30.6	48.4	19.4	1.6
Pearl Jewelry	23.8	38.1	30.2	7.9
Karat Gold Jewelry	22.6	48.4	24.2	4.8
Colored Stone Jewelry	21.0	48.4	27.4	3.2
Watches	13.8	29.3	39.7	17.2
Custom Design	12.5	42.9	35.7	8.9
Watchbands	11.9	25.4	42.4	20.3
Giftwares	6.4	34.0	40.4	19.2
Clocks	6.4	19.1	36.2	38.3

Credit: Jeweler's Circular-Keystone

without exposure to any light source.

Arthur Cohen, president of the company, says that Pulsar's marketing strategy is unlikely to change: "Our customer base is sound and has not been threatened by low-end digitals."

He notes that Pulsar has adopted a "shotgun" approach to marketing, with a broadly determined target of 18-45 in the +$20,000 income range. With models currently priced between $50 and $200, he hopes that the target will be expanded to the +$18,000 range soon.

Media has been principally spot tv, with network interspaced throughout the year at key buying times. In the fall, Cohen says, tv advertising tends to be pretty evenly split between net and spot.

Print accounts for only 10% of the media mix, with a heavy seasonal emphasis on women's books in the fall. In the spring, Pulsar uses *Newsweek* and *Playboy*, "trying to attract the male and gift-giving audience." Media budget has been running at about $7 million for some 500 models, which represents about 65% of the total spent on advertising and promotion.

"The retailers depend on display and co-op, and we've found that an in-store feature is our best advertising."

Lorus is the latest addition to the lineup, only a year old but already accounting for 35% of Hattori watches sold. Vern Louden, vp, sales and marketing for the company, says Lorus has just embarked on a five-year growth plan calculated to differentiate it from its "panic-stricken" adversaries.

Distribution is broad-based, covering outlets from jewelry stores to drugstore chains. Louden says the diversity of the product line reaches into both utilitarian and fashion-oriented interests. "We haven't honed in on one particular area," says Louden, stressing that the below-$55 price range answers a wide array of needs.

Advertising budget for the brand has been increasing at a startling pace, up 50% in 1984 from an estimated $2.5 million in 1983. Louden notes that marketing strategy has focused on media selection.

An eight-month consumer campaign is concentrated in the top 60 spot markets, with some cable thrown in for additional weight. "We don't use print," says Louden, "although we're considering using it in 1985 to reinforce the tv." The main reason to rely on broadcast, he explains, is that the company is "thirty years behind" in terms of exposure. The campaign has been calculated to render 928 grp's in each four-month half.

The consumer campaign is supported, in a sense, by an equally heavy

WATCH SALES

SHARE OF MARKET BY TYPE OF RETAIL OUTLET

(Expressed as a percent of total watch sales)

	1975	1976	1977	1978	1979	1980	1981	1982	Compound annual growth 1975-1979	Compound annual growth 1979-1982
Jewelry Stores	45%	43%	42%	40%	37%	36%	36%	33%	+ 9.5%	+ 4.0%
Catalog Showrooms	24	27	27	29	31	31	31	33	+21.7	+10.5
Department Stores	5	5	6	7	8	8	8	8	+27.8	+ 8.9
Discount Stores	18	17	16	16	16	17	17	18	+10.4	+14.5
Sears, Penney, Ward	4	4	4	3	3	3	3	3	+ 9.3	+ 6.3
Direct Sales	1	1	1	1	1	1	1	1	+18.9	+ .0
Other	3	4	4	4	4	5	5	4	+21.3	+ 7.2

Credit: Zayles

trade campaign, increased 100% over 1983. "We will be covering each trade publication — and there are some 20 of them — four to six times in the year." Strong links with retailers, and an emphasis on service, will help to maintain high growth rates.

Timex

Long the volume leader, Timex Corp. has slipped to fifth place — and that's not the only area that's seen sliding. After an ill-conceived foray into computer marketing, the company has undergone some quick change. The new strategy: to put its weight and strength behind what it had done best: produce and market watches and clocks. More than $100 million have gone into a complete retooling and redesign of the entire line — which doesn't include the investment pulled out from under the computer and health care items.

But if it was a squeeze on profits from low-end watches that prompted the diversification in the first place, can Timex seriously expect to regain lost ground, even with redesigning? Dave Rahilly, director of marketing, certainly hopes so.

"Timex had gotten complacent about its success until a few years ago," he says, adding that the effort to regain its competitive position is reflected in the massive restructuring of the product line — to say nothing

JEWELRY AND WATCH SALES

SHARE OF MARKET BY TYPE OF RETAIL OUTLET

(Expressed as a percent of total jewelry and watch sales)

	1975	1976	1977	1978	1979	1980	1981	1982	Compound annual growth 1975-1979	Compound annual growth 1979-1982
Jewelry Stores	55%	54%	53%	51%	49%	50%	51%	49%	+11.3%	+ 5.4%
Catalog Showrooms	14	15	17	18	21	21	21	23	+25.9	+ 9.5
Department Stores	7	7	7	7	7	8	8	8	+16.8	+ 7.8
Discount Stores	6	5	5	6	6	6	7	7	+14.5	+11.5
Sears, Penney, Ward	9	8	8	8	7	6	6	6	+ 8.2	+ 0.2
Direct Sales	4	5	5	5	4	4	3	3	+13.7	- 5.8
Other	6	6	5	5	5	5	5	4	+ 9.8	- 2.1

PRECIOUS JEWELRY SALES

SHARE OF MARKET BY TYPE OF RETAIL OUTLET

(Expressed as a percent of total precious jewelry and watch sales)

	1975	1976	1977	1978	1979	1980	1981	1982	Compound annual growth 1975-1979	Compound annual growth 1979-1982
Jewelry Stores	72%	71%	67%	65%	61%	61%	61%	59%	+12.1%	+ 5.8%
Catalog Showrooms	15	16	18	20	22	22	22	24	+28.9	+ 9.7
Department Stores	5	5	6	6	6	7	7	7	+25.2	+ 9.9
Discount Stores	2	2	2	2	3	3	3	3	+36.0	+10.3
Sears, Penney, Ward	7	6	7	7	6	6	6	6	+15.7	+ 3.4
Direct Sales	—	—	—	1	1	1	1	1	+49.5	+17.0
Other	—	—	—	—	1	1	1	1	+49.5	- 3.5

DIAMOND JEWELRY SALES

SHARE OF MARKET BY TYPE OF RETAIL OUTLET

(Expressed as a percent of total diamond jewelry sales)

	1975	1976	1977	1978	1979	1980	1981	1982	Compound annual growth 1975-1979	Compound annual growth 1979-1982
Jewelry Stores	76%	75%	73%	72%	69%	69%	69%	67%	+11.2%	+ 4.9%
Catalog Showrooms	14	15	17	19	21	21	22	23	+26.3	+ 9.2
Department Stores	4	5	5	5	5	5	5	5	+14.6	+10.7
Discount Stores	1	1	1	1	1	1	1	1	+10.7	+10.1
Sears, Penney, Ward	4	3	3	3	3	4	3	3	+ 8.9	+ 7.4
Direct Sales	1	1	1	1	1	1	1	1	+41.4	.0
Other	1	1	1	1	1	1	1	—	+18.9	.0

Credit: Zayles

KARAT GOLD SALES

SHARE OF MARKET BY TYPE OF RETAIL OUTLET

(Expressed as a percent of total karat gold sales)

	1975	1976	1977	1978	1979	1980	1981	1982	Compound annual growth 1975-1979	Compound annual growth 1979-1982
Jewelry Stores	63%	61%	57%	56%	50%	52%	50%	50%	+16.4%	+ 5.6%
Catalog Showrooms	16	18	20	21	23	21	22	23	+34.0	+ 6.5
Department Stores	5	6	7	7	9	10	10	9	+36.0	+ 8.9
Discount Stores	3	3	3	4	6	7	7	7	+47.4	+10.1
Sears, Penney, Ward	12	10	11	11	10	9	9	8	+17.8	+ 0.7
Direct Sales	1	1	1	1	1	2	1	2	+56.5	+18.0
Other	1	1	1	1	2	2	2	1	+68.2	+ 9.1

JEWELRY AND WATCHES: SLOWER GROWTH BUT STILL COMPETITIVE

(SALES IN BILLION OF CURRENT $s)

	1975	1979	1982	Compound annual growth 1975-1979	Compound annual growth 1979-1982
Jewelry and Watches	$ 6.2	$ 10.5	$ 12.4	+14.0%	+5.8%
Department Store Sales	$ 61.8	$ 89.2	$ 107.0	+ 9.6%	+6.3%
General Merchandise Sales	$ 78.0	$110.3	$ 131.3	+ 9.0%	+6.0%
All Retail Sales	$588.1	$900.6	$1,075.7	+11.2%	+6.1%

Source: Zale Corp.; Temple, Barker & Sloane Inc. estimates of jewelry and watch sales; "Current Business Reports," U.S. Census Department.

Sales growth for jewelry industry products far outdistanced that for other retail products in the late 1970s. Even in recent tough business years, the jeweler's products have stayed very competitive. Zale research indicates a return to the high growth rate of the 1970s for jewelry store merchandise. When this growth comes in the second half of this decade it will be fueled much more by increased demand than by inflation, as was the case in the 1975-79 period.

of executive changes.

He points to Timex's traditionally superior manufacture of small parts and its high level of awareness among consumers as two strengths that will help the company. "We're really not planning a change in marketing strategy," he says. Budget has been increasing since 1982's $15 million, and may reach twice that in 1984. Tv will continue to be the primary medium, with much of the emphasis on network. Print plays a more important role for some models, especially sporty ones. For women's models, the emphasis is on styling, with ten-second vignettes created to be strung together for :30 spots, or used for :10 news breaks.

While price, as low as $9 for a digital model, has always been a dominant selling point for Timex, the new advertising, which broke on Mother's Day, has been focused on function and styling. "We are going to be redressing price for our quartz models," Rahilly says, adding that these models are a growth area for the company, with a high potential for profitability.

A new move for the company is the introduction of a more expensive watch, a quartz analog priced as high as $120 — perhaps to take a little heat off the lower end, where Lorus has been carving up Timex's market share. The new line will be marketed differently, from its packaging and display, to its advertising. For tv, the watch is being included in the 'Great Watch' campaign Timex has launched, but in print, advertising will appear in upscale publications like *The New Yorker* — "not typical Timex vehicles," says Rahilly. The skew is to a slightly older and slightly more affluent audience than the traditional Timex consumer, but still an audience "that recognizes a good value." Rollout is scheduled for the middle of the year, but the weight of the advertising will be in the fourth quarter, because, Rahilly explains, "this is more of a gift item than an everyday purchase." The watch will be marketed through jewelry and department stores, though potential competitors Bulova and Hattori remain unconcerned about the incursion.

Bulova

Bulova came out of the recession "pretty well," according to Jerry Josephson, vp, marketing at the company, and is now in its best position of the last five years.

But, even with help from its parent, Loews Corp., market share has dropped rapidly, to 2%, within the past decade.

By moving production out of the States and abandoning its digital line, Bulova hopes, at least, to see a profit in 1984.

Although relatively unaffected by low-end price wars, Josephson notes

Ads by International Gold Corp. stress that "anyone can afford it now," according to Jana Brady, of the U.S. Jewelry division.

that the emphasis on price has turned watches into a commodity, instead of an image item. Bulova is the only manufacturer ready to tackle the problem head-on. Its advertising emphasis will be on the trade this year, in an effort to make the watch-maker the stabilizing force in the industry.

"We feel the major problem for 1984 is to get jewelers and jewelry departments to make a profit on watches," explains Josephson. He says that the mark-up on which these outlets make their profits has been chipped away by forced competitive discounts — which he lays at the feet of Japanese and Hong Kong distributors. Watches are important to jewelers, says Josephson, because they are the only name brand items in the store; they can't afford to be loss leaders.

In a sense, the active trade campaign Bulova is embarking on will attempt to reestablish class lines in the watch industry: "Jewelers make a mistake when they compete with the low-end of the market." The campaign will be marked by heavy use of multiple page advertising in all of the industry's publications, as well as promotions.

For its consumer campaign, Bulova has revamped its old tag line with, "It's Bulova time again." The campaign will run in fashion magazines, to stress styling — 55% of the line is new as of January 1984.

Part of the reason behind the resuscitation of a tag-line familiar to traditional Bulova customers is the target: at 25-50, it is slightly older than the regular watch audience. "We want to appeal to people who are familiar with Bulova — after all, we've been around for 109 years." By 1985, Josephson adds, the company hopes to reach an 18+ demographic, by adding more fashionable models in the Caravelle price range ($50 to $100).

The consumer campaign will be supported by a tie-in promotion that offers rebates to Bulova purchasers, to be used toward travelling expenses. "There will be a separate advertising campaign starting on April 1."

But the main thrust, Josephson stresses, will be to the trade. "We think it's a good idea, given the amount of money the Japanese will spend to grab market share. And research shows that 60% of consumers, despite what the "Buy American" studies show, are uncommitted. Only 40% ask for a particular brand. The other are influenced by point of purchase material, by the salesperson. We're after that 60%, so we're investing with the dealers."

And how much will all this good-neighborism cost? Josephson is reluctant to pin down a figure, but estimates range upward from $5 million.

"We're looking to have a good year," he concludes.

North American Watch

Four brands on the fine watch end come out of this company: Corum, Concord, Movado and Piaget, all of them handled by an in-house agency. Expenditures have risen from $12 million, to an anticipated $15 million in 1984, with the recent addition of Movado.

Each of the four brands has a distinct campaign. "We advertise each product differently, with a different media mix," says Harry Viola, president of the in-house agency, Harry Viola & Associates. "Even if we were to base media selection on demographics alone, the difference in each audience wouldn't be hard to pinpoint."

Movado, at the low end with prices ranging from $200 to $300, is the closest product to a mass item. Viola uses spot tv, mostly news, to reach a mass audience that is more affluent and more educated than the average tv viewer. He says the television part of the plan allows him more flexibility, with room for specials and prime time: "We're looking for the numbers."

Print is divided into two categories: fashion and "intellectual." He notes that the Movado is the only watch included in the Museum of Modern Art's design collection — hence the intellectual slant. Magazines include *Vogue* and *People*, for the first category, and *Smithsonian*, *National Geographic*, *Atlantic* and *The New Yorker*, for the second. "Movado gets very different positioning from any of the other brands," says Viola of his schedule.

Concord, at $900 is targeted at incomes of +$60,000. Positioning has been shifted from simply upscale to focus on sporty attributes. Media has changed accordingly. Television is news and sports. Print is the two newsweeklies, with *Sports Illustrated*, a useful vehicle, since advertising features well-known sports personalities, such as Mark Spitz and Bjorn Borg.

"The Concord is positioned as a sports watch in the copy. We use the personalities to reinforce that with a tag line, 'Makes the bulky watch passé,' that emphasizes the styling."

In ever-increasing price range, the Corum line uses print alone. Two of the models, the Admiral's Cup and Clipper Club, get some attention in special interest books like *Sailing* and *Motorboat*. Tagged a watch for achievement, the line is also featured in business books, with a similar schedule to the highest priced line, Piaget.

Piaget is perhaps the best-known

"It takes a certain kind of person" to buy a watch with a twenty dollar gold piece face, says Harry Viola of the Corum ads.

name in the high price categories, with ultra-thin models that run as high as $10,000. The target for the brand is household incomes of +$150,000. "No matter what we do in terms of media, we'll have some waste."

Advertising is uniquely print, and concentrated on the fashion books — *Town & Country, Vogue, Harper's,* with some support from business books like *Forbes,* and regionals like *Texas Monthly, LA Monthly* and the New York Times Sunday *Magazine*. Even with sponsorships such as the World Cup for polo, "advertising has been and will continue to be an important part of the whole picture."

Viola emphasizes that the brands are all distinct companies, each with its own sales force and ad budget.

Diamonds

The industry divides the market into three segments: diamond engagement rings, which represent about 10% of the market; women's diamond jewelry, which accounts for an overwhelming 80% of all diamonds sold in the U.S.; and diamonds for men, a relatively new category, but one that has shown much promise in the post-men-can-cry-too years.

It is in the second category that a significant trend has been developing over the past ten years, according to Harkness Cram, senior vp, management supervisor for the De Beers consortium at N W Ayer.

"With the advances in mining and cutting, we've seen a democratization of the diamond. The stones are now available in all sizes, at all price points; they're no longer exclusively for the very rich. And they have been popularized without losing mystique, or their desirability."

Diamond jewelry for women can be subdivided into three groups. Diamond anniversary rings are but a small part of the segment, since they are occasion-specific. The basic gift of diamond jewelry is a category that has grown, especially in the range of commercial grades of the stone.

Diamonds of one carat or more, a segment one might assume to be self-defining, actually has a very precise target audience. About 25% of the women's diamond jewelry budget goes after these women, in the 25-50 range, with incomes over $50,000.

"The bulk of likely prospects are actually in the 34+ range, with incomes higher than $50,000," Cram says, adding that television advertising for this segment of jewelry "doesn't turn off people with more moderate incomes. And we've found that there's a halo effect. The advertising seems to reinforce that diamonds are a highly desirable gift."

Among older, more affluent women, the catch seems to be size. "At that point, it's less a gift of love, than one of status. This isn't a first purchase, but a third, a fourth, a fifth."

Despite the fact that "the dynamics of diamond acquisition soar with incomes over $100,000," Cram says that the diamond industry has been making an effort to broaden its messages. De Beers itself has just initiated a new campaign that focuses on quality, in an effort to educate consumers and potential consumers about the stone.

Not that past campaigns haven't been effective. Cram says that the diamond industry tends to be recession resistent. The dollar volume of diamond jewelry sold at the rental level rose from $5.5 billion in 1982, to "close to" $6.25 billion in 1983, with more pieces sold in that year than earlier.

De Beers itself plays a watch dog role in the industry. An ever-increasing ad budget "helps the industry generate spending for diamonds." Out of a total budget of $26 million in 1983, $22 million went to advertising — the rest, to promotions. 1984 will see a 26% increase in the total, to $34 million, with about $25 million allocated to advertising.

"De Beers' principle responsibility," says Cram, "has been to provide stability." Hence, he explains, some price cutting measures in an effort to reduce inventories of high-quality stones that continue to block complete recovery.

De Beers' own use of media varies by segment, with advertising weight allocated by each segment's relative importance.

The diamond engagement rings are advertised only in print — a more effective way to reach that has continued to be, despite a ballooning divorce rate, a young demographic. For the 500,000 repeat marriages each year, Cram points out, there are 1.2 million first go-rounds. "We acknowledge the repeat marriages in our creative without actually addressing them." He notes that, where the age range used to be 18-24 fifteen years ago, it has risen to 18-34 now.

Magazines range from *Seventeen, Glamour, Mademoiselle,* and the bride books, to *Cosmopolitan* and *Playboy*.

The mix for women's diamond jewelry is evenly split between tv and print, itself covering a broad range of titles. "We don't buy dayparts, we buy programs," Cram says. He describes the buys as "quality-related, upscale and romantic — avoiding gratuitious sex and violence." This characteriza-

tion covers programing such as the U.S. Open (tennis and golf), football, some specials like *Kennedy*, and some prime time — *60 Minutes* and *Dallas*.

"We also look for markets of opportunity, markets where diamonds are more likely to be bought." These tend to be largely in the sunbelt, in cities, predictably, like Dallas, Houston, Oklahoma City, Atlanta and L.A., "— not because of a population shift, or anything, but simply because the measure of diamond jewelry acquisition is greater there than in more traditional, conservative, and older established communities."

As an example, Cram says that the national average in 1982 showed 9.6 out of every 100 women bought a new piece of diamond jewelry.

In Boston, the index was 6.0%. In Dallas, the highest in the world, it was 13.5%.

Diamond jewelry for men is currently exclusively in print. Acquisition has been increasing, to 2.0% in 1981, up from 1.5% a few years before.

"We find that the trend has been similar to the one for cosmetics — men are more willing to give in to self-expression, to wear jewelry." Vehicles include *GQ*, *Esquire*, *Playboy* and some women's magazines — "the overwhelming percentage is bought by women for their men, especially around Christmas."

Cram says that seasonality varies in each segment, but that it tends no longer to be as pertinent as it had been, except for women's diamond jewelry, 60% of which is bought in the Christmas season.

Despite continued bottlenecks at the high-end of the market, prospects for diamond jewelry sales are very good, according to a survey conducted by *Jewelers Circular/Keystone*. The trade publication found that 78.1% said diamond jewelry was a good or very good sales prospect for 1984, with almost half the sales expected to come from necklaces and earrings. Larger, high quality stones are still expected to be sticky; the most popular price range is below $1,000.

Cram does not seem concerned. "It's a strong business. And the desire to give gifts — and diamonds' share of that does not seem to have diminished over time."

Part of Timex's 'Great Watch' campaign.

Gold

The mood at International Gold Corp., the industry leader, is optimistic, after what Jana Brady, general manager of the U.S. Jewelry division, calls "an excellent year." By Christmas, she notes, sales were 15% to 20% over 1982's holidays and some chains reported an increase of as much as 30%.

Surveys conducted by International Gold indicate that most of the major chains expect the price of gold to remain stable throughout 1984. "This year will be an opportunity to build. The business and economic indices are good. We expect to see a continuation of consumer spending, barring any economic or international crises — unlikely in an election year."

Ad budgets have been increasing steadily since 1982's $3.3 million. Brady, loathe to release a figure, notes that the media budget for 1984 will be double the 1983 allocation. Apart from a co-op program with jewelers and manufacturers for certain name brands like Saks and Kristin Moore, most of the advertising is generic. Brady says that advertising for gold is divided into three segments: adult gift-giving, targeted at men and women; female self-purchase, and men's jewelry. All three groups are in the 25-54 demographic, with household incomes of +$25,000.

"Our media selection differs for each group. *People* is the only magazine in common to all three. For the first group, we use dual audience books, like *U.S. News*, *Food & Wine*, *Atlantic*, *New Yorker*. The second group tends to be more affluent, since you're talking about a single income of +$25,000. We go into fashion and lifestyle books, like for the adult gift-giving segment, but with a female skew. The third group, we advertise to in dual audience books and male skewed ones, like *Money*, *Fortune*, *Forbes*, *Travel & Leisure*."

Brady adds that all three campaigns are supported by advertising in regional magazines in the areas where the research has shown a higher level of gold buying: Boston, California, New York, Philadelphia, Texas and Washington, D.C. "Basically, it's an overlay to our national campaigns."

Patterns in gold buying have been changing, much as diamond purchases have. A stable, favorable price has encouraged consumers to buy more gold. And refined manufacturing techniques now allow a variety of price points, making gold jewelry available to anyone. "Anyone can afford it now," says Brady says, is the growth of the female self-purchase category.

That segment, Brady adds, is growwith the gift-giving opportunities ranging from Valentine's Day to graduation, and Christmas — are giving way to a year round buying. One reason, Brady says is the growth of the female self-purchase category.

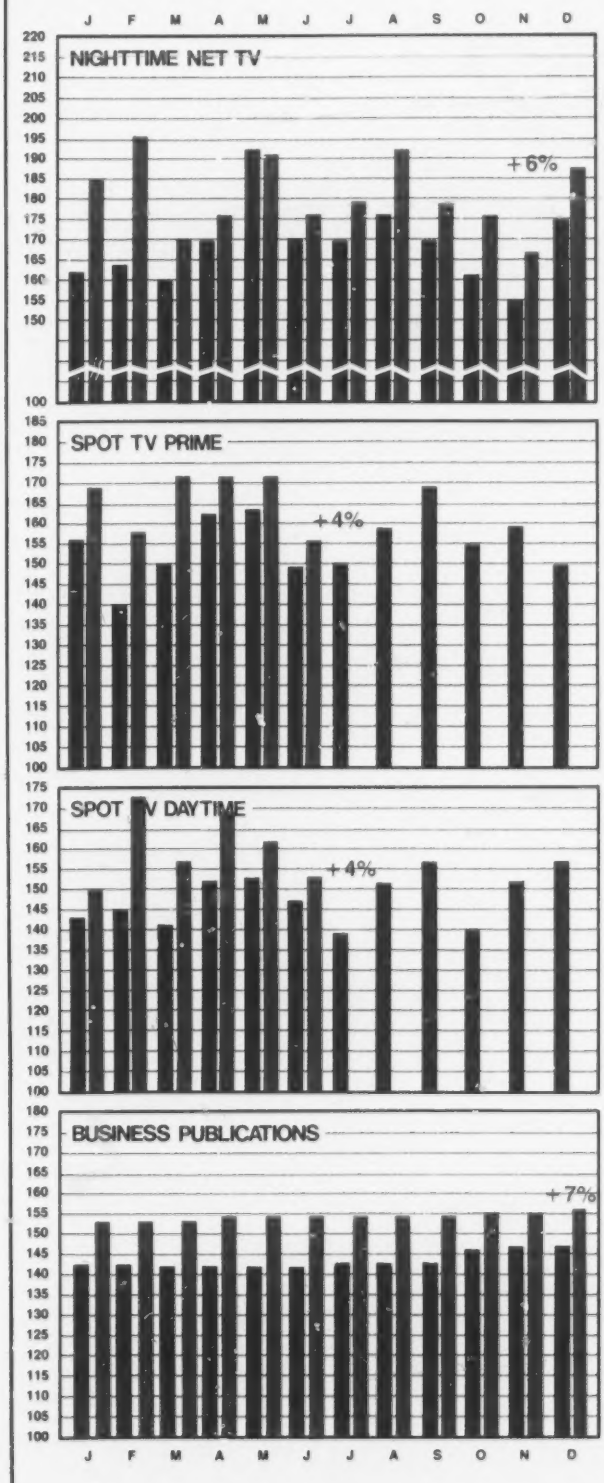
That segment, Brady adds, is growing so fast that it is eroding the 60% share of the adult gift-giving segment. Much of the growth comes from the use of gold jewelry as a fashion accessory. "You're seeing gold more in department stores and boutiques," says Brady.

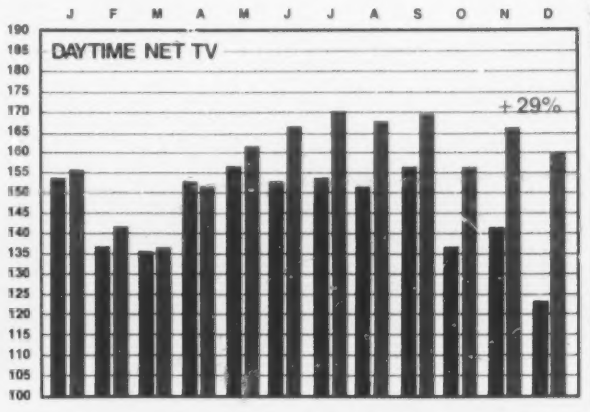
Advertising weight is distributed proportionately, with 60% of the budget behind the adult gift-giving segment, and 40% behind women's gold jewelry. "We have very little advertising for the men's jewelry, and it comes out of a different budget," says Brady. "If it were added to the total, it would represent maybe 10% to 15%, mostly out of the adult gift-giving segment, where there is an overlap."

Laura Konrad Jereski

MEDIA COST INDEX

Black bars index for 1982; color bars 1983; base year 1977





The addition of three new network broadcast numbers closes the M&MD cost index for the year 1983.

Nighttime network tv closed with a gain of 6% in the December-over-December readings; **daytime network tv** reported a rate increase of 29% on the same basis. **Network radio** rates were up 5%.

The development of cost indexes for spot tv and spot radio have been interrupted in this series as meaningful cost data have not been available on an on-going basis.

The **spot tv** problem developed when the compiling service, Broadcast Advertisers Reports, expanded its monitor list and also redefined dayparts. This problem, however, will tend to work itself out when third-quarter 1984 data are matched to third-quarter 1983. At the moment, BAR is seeking to come up with an interim figure to at least indicate a trend.

Spot radio remains an enigma; useful data have been lacking for a rather long time. We are continuing to probe into this and will welcome any suggestions from readers or the industry itself.

A slight correction has been made in the **newspaper** index. The month-over-month gain for December should have been 9% with an index of 126 instead of 10% and 123.

The Media Cost Index reflects trends extracted from available sources. This analysis uses standard competitive report sources to develop comparable costs that reflect monthly cost trends by medium. Where industry competitive sources are unavailable, selected cost data from SRDS are sampled.

Sources: **Nighttime Network TV** — Cost per average 30-second spot, 7:30-11 p.m. Monday-Saturday and 7-11 p.m. Sunday from Broadcast Advertisers Reports' (BAR) Network TV Service. **Daytime Network TV** — Cost per average 30-second spot, 10 a.m.-4:30 p.m. Monday-Friday from BAR's Network TV Service. **Network Radio** — Cost per average 30-second radio announcement from BAR's Network Radio Service. **Spot TV — prime and daytime** — Cost per 30-second spot, Monday-Sunday from BAR's Spot TV Service.

Consumer Magazine estimate based on reported SRDS cost of a page, four-color in 40 national consumer magazines, as reported by Magazine Publishers Assn. **National supplements** estimate based on published (rate cards) costs of a page, four-color for the national supplements. **Daily Newspapers** estimate based on Newspaper Advertising Bureau report of SRDS costs per agate line of a sample of 788 newspapers weighted to represent the universe. **Business Publications** estimate based on reported SRDS cost of a page, four-color in 48 publications representing 42 business and professional classifications. **Outdoor Posters** based on estimate prepared by Institute of Outdoor Advertising. Spot Radio data to develop a continuing index are not available at the present.

How to read: Media Cost Index reflects latest available costs compared with base year 1977. Percent change shows rate of change from the same month in previous year.

MEDIA COST INDEX (continued)

Black bars index for 1982; color bars 1983; base year 1977